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TO AMEMBASSY KATHMANDU

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FOLLOWING REPEAT NEW DELHI 06732 ACTION DEPT INFO DACCA ISLAMABAD
LONDON BOMBAY CALCUTTA MADRAS MAY 21ST

QUOTE

LIMITED OFFICIAL USE NEW DELHI 6732

E.O. 11652: N/A

TAGS: PFOR, IN, BG

SUBJECT: SHEIKH MUJIB'S VISIT TO INDIA

REF: NEW DELHI 6086

SUMMARY: SHEIKH MUJIB AND MRS. GANDHI RESOLVED SOME BILATERAL PROBLEMS AND AGREED ON WAYS TO GO ABOUT RESOLVING OTHERS LAST WEEK. THIS SHOULD HELP KEEP INDIA-BANGLADESH RELATIONS ON AN EVEN KEEL WHILE BANGLADESH AND PAKISTAN WORK OUT THEIR NEW RELATIONSHIP. THE PROOF, HOWEVER, WILL BE IN HOW INDIA PRODUCES ON ITS NEW AID COMMITMENTS TO HELP BANGLADESH ESTABLISH INDUSTRIES(FERTILIZER, CEMENT AND SPONGE IRON); HOW THE NEW MECHANISMS WORK TO STIMULATE TRADE, PREVENT SMUGGLING AND COOPERATE ON JUTE MARKETING; AND HOW THE GANGES WATERS ARE DIVIDED FOR THE INTERIM PERIOD BEFORE PROJECTS CAN BE DEVELOPED TO AUGMENT THE DRY-SEASON FLOW IN BANGLADESH. END SUMMARY.

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1. SHEIKH MUJIB'S TALKS WITH MRS. GANDHI IN DELHI MAY 12-16 WERE THE FIRST DETAILED TALKS THE TWO HAVE HAD FOR TWO YEARS. BOTH SIDES HAD SAVED UP PROBLEMS TO BE DISCUSSED. THEY BEGAN THEIR TALKS A FEW HOUR AFTER HIS ARRIVAL AND HIS DEPARTURE WAS DELAYED SEVERAL HOURS WHILE THEY PUT THE FINISHING TOUCHES ON THE BORDER DEMARCATION AGREEMENT. THE RESULT WAS AGREEMENT OR PARTIAL AGREEMENT ON THE BORDER, ON SEVERAL ECONOMIC ISSUES, AND ON THE ALMOST COMPLETED INDIAN PROJECT TO DIVERT SOME OF THE GANGES WATER TO CALCUTTA.

2. BORDER DEMARCATION: INDIAN OFFICIALS HAVE ALWAYS MAINTAINED THAT PAKISTAN DELIBERATELY AVOIDED RESOLVING BORDER DISPUTES OUTSTANDING FROM 1974. AFTER THE EMERGENCE OF BANGLADESH IN 1971, THESE DISPUTES WERE LEFT ON THE BACK BURNER FOR SOME TIME. NOW THE TWO SIDES HAVE REACHED FULL AGREEMENT ON ALL OUTSTANDING DISPUTES, APPARENTLY ON A PRAGMATIC RATHER THAN LEGALISTIC BASIS. AS ORIGINALLY AGREED BETWEEN INDIA AND PAKISTAN BEFORE 1971 BUT NEVER IMPLEMENTED, BANGLADESH GETS INDIAN ENCLAVES IN BANGLADESH AND VICE VERSA. INDIA, HOWEVER, GETS THE CONTIGUOUS AREA KNOWN AS THE BERUBARI UNION, CESSION OF WHICH HAD BECOME AN ISSUE WITHIN INDIA, AND BANGLADESH IN RETURN RECEIVES TWO ENCLAVES IN INDIA AND AN ACCESS STRIP.

3. ECONOMIC ISSUES: THESE APPARENTLY CONSUMED AN INORDINATE AMOUNT OF TIME AS BANGLADESH AND INDIA SOUGHT TO BREATHE SOME LIFE INTO WHAT HAS BECOME A LESS THAN SATISFACTORY RELATIONSHIP FROM THE STANDPOINT OF BOTH SIDES. THE AGREEMENTS PROVIDE FOR MORE INDIAN AID, FOR ESTABLISHMENT OF MECHANISMS TO STIMULATE TRADE AND REDUCE SMUGGLING, FOR A JOINT COMMISSION ON JUTE, AND FOR A RAIL LINK TO THE ISOLATED INDIAN STATE OF TRIPURA.

4. AID: INDIA OFFERED HELP IN ESTABLISHING INDUSTRIES TO TAKE ADVANTAGE OF WHAT LITTLE COMPLEMENTARITY THERE IS BETWEEN THE TWO ECONOMIES. THE MOST IMPORTANT JOINT PROJECT IS A FERTILIZER PLANT, WHICH WILL USE BANGLADESH'S NATURAL GAS AND WHICH WILL EXPORT ANY SURPLUS UREA PRODUCTION TO INDIA. THIS PROJECT IS APPARENTLY IN ADDITION TO THE ONE WHICH THE WORLD BANK AND THE USG ARE REPORTEDLY CONSIDERING AIDING. INDIA WILL ALSO HELP BUILD ANOTHER CEMENT PLANT IN BANGLADESH, TO BE FED BY LIME-STONE FROM INDIA, AND A CLINKER PLANT IN INDIA TO SUPPLY CLINKER LIMITED OFFICIAL USE

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TO THE EXISTING CLINKER GRINDING PLANT AT CHITTAGONG. FINALLY, IT WILL ASSIST WITH A SPONGE IRON PLANT, TO USE IRON ORE FROM INDIA. INDIA PROMISED RS. 50 MILLION (\$6.5 MILLION) FOR THE CEMENT FACTORY PLUS CREDITS FOR THE OTHER PROJECTS WHEN COSTS ARE ESTABLISHED. OTHER NEW AID ANNOUNCED INCLUDED AN AGREEMENT SIGNED FOR RS. 100 MILLION (\$13 MILLION) FOR IMPORT OF INDIAN COMMODITIES AND SPARES BY BANGLADESH, AND A PROMISE FOR RS. 230 MILLION (\$30 MILLION) FOR A VARIETY OF OTHER CREDITS. INDIA

AND BANGLADESH ALSO SIGNED PREVIOUSLY ANNOUNCED CREDITS OF RS. 310 MILLION (\$40 MILLION) FOR SUPPLY OF INDIAN CAPITAL GOODS. IN KEEPING WITH THE TREND ESTABLISHED LAST YEAR, THE NEW INDIAN AID WILL BE VIRTUALLY ALL IN THE FORM OF LOANS AT TERMS SOMEWHERE BETWEEN COMMERCIAL AND FULL CONCESSIONAL ASSISTANCE.

5. TRADE AND SMUGGLING: INDIA AND BANGLADESH AGREED TO "STEP UP EXPORTS TO ENSURE FULFILLMENT OF TARGETS" SET IN THE BALANCED TRADE AND PAYMENTS ARRANGEMENT OF LAST SEPTEMBER, AND ALSO TO ESTABLISH A MINISTERIAL COMMITTEE "TO EFFECTIVELY CONTROL ILLEGAL TRANSACTIONS". BEHIND THIS LIE THE RELATED PROBLEMS OF THE INABILITY OF EITHER SIDE TO MEET THE TRADE TARGETS SET LAST YEAR AND SMUGGLING ON CONSUMER GOODS FROM INDIA TO BANGLADESH AND OF JUTE IN THE OTHER DIRECTION. INDIA HAS FALLEN FAR SHORT OF ITS TARGET ON SUPPLY OF COAL IN PARTICULAR, WHILE BANGLADESH IS BEHIND ON JUTE SUPPLY. SMUGGLING WAS APPARENTLY A VERY SORE POINT WITH BANGLADESH. WE HEARD FROM ONE SOURCE THAT BANGLADESH WANTED INDIA ESSENTIALLY TO NATIONALIZE THE JUTE TRADE WITHIN INDIA TO PREVENT SMUGGLING FROM BANGLADESH, AND FROM ANOTHER THAT IT WANTED INDIA TO TIGHTEN ITS EXCHANGE CONTROLS, WHICH ARE ALREADY AMONG THE WORLD'S MOST STRINGENT.

6. RAIL LINK: THE TWO GOVERNMENTS WILL CONDUCT A JOINT SURVEY FOR A SHORT RAILROAD FROM THE BANGLADESH BORDER TO AGARTALA, THE CAPITAL OF THE INDIAN STATE OF MANIPUR. THE IDEA IS TO DEVELOP A BARGE/RAIL LINK BETWEEN CALCUTTA AND AGARTALA, WHICH IS VIRTUALLY CUT OFF FOR PART OF THE YEAR.

7. JUTE: INDIA AND BANGLADESH ARE EXPLORING COOPERATIVE MARKETING ARRANGEMENTS FOR JUTE. TOGETHER THEY DOMINATE THE WORLD MARKET, ALTHOUGH INDIA EXPORTS PRIMARILY JUTE MANUFACTURES WHILE BANGLADESH EXPORTS BOTH RAW JUTE AND JUTE MANUFACTURES. LIMITED OFFICIAL USE

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INDIAN OFFICIALS ADMIT THEY ARE THINKING ABOUT A JOINT PRICING POLICY, BUT THEY SAY EFFECTIVE IMPLEMENTATION IS SOME TIME AWAY. OBVIOUSLY, ANY COOPERATIVE MARKETING DEPENDS IN PART ON A MUTUALLY SATISFACTORY LEVEL AND PRICE OF BANGLADESH JUTE EXPORTS TO INDIA.

8. FARAKKA BARRAGE: BANGLADESH AGREED TO COMMISSIONING BY THE END OF THE YEAR OF THE FARAKKA BARRAGE, WHICH IS DESIGNED TO FLUSH OUT SILTATION FROM CALCUTTA PORT BY DIVERSION OF A PART OF THE GANGES. BANGLADESH ALSO AGREED THAT THE DRY-SEASON FLOW OF THE GANGES SHOULD BE AUGMENTED TO PROVIDE ENOUGH WATER BOTH FOR CALCUTTA AND FOR BANGLADESH. (BANGLADESH HAD PREVIOUSLY TRIED TO SEPARATE THE FARAKKA ISSUE OUT FROM THE BROADER ISSUE OF REGIONAL WATER MANAGEMENT AND HAD GOTTEN AGREEMENT THAT FARAKKA WOULD NOT BE COMMISSIONED BEFORE AGREEMENT ON DIVISION

OF THE GANGES WATER.) HOWEVER, BANGLADESH SCORED THE POINT THAT AUGMENTATION OF THE FLOW OF THE GANGES WOULD TAKE "SOME YEARS." INDIA AND BANGLADESH, THEREFORE, "EXPRESSED THEIR DETERMINATION THAT BEFORE THE FARAKKA PROJECT IS COMMISSIONED THEY WOULD ARRIVE AT A MUTUALLY ACCEPTABLE ALLOCATION OF THE WATER AVAILABLE DURING THE PERIODS OF MINIMUM FLOW IN THE GANGA." THIS GIVES THE TWO SIDES LESS THAN A YEAR TO REACH AN AGREEMENT. THE COMMUNIQUE ITSELF POINTS OUT THAT THERE MAY NOT BE ENOUGH WATER TO MEET THE NEEDS OF BOTH CALCUTTA AND BANGLADESH. ONE OR THE OTHER OR BOTH WILL HAVE TO GIVE IN.

9. INDIA-BANGLADESH-PAKISTAN: INDIAN OFFICIALS TALK LESS NOW THAN THEY DID A COUPLE OF MONTHS AGO ABOUT RAPID RESUMPTION OF LARGE-SCALE TRADE BETWEEN BANGLADESH AND PAKISTAN. THEY POINT TO THE PROBLEM OF DIVISION OF LIABILITIES AND ASSETS BETWEEN PAKISTAN AND BANGLADESH. IN GENERAL, THEY APPEAR SOMEWHAT REASSURED THAT BANGLADESH-PAKISTAN RELATIONS AREN'T GOING TO GO TOO FAR TOO FAST. THAT IS ALL THE MORE INCENTIVE FOR THEM TO MAKE THE NEW AGREEMENTS WITH BANGLADESH WORK AND TO RESOLVE THE LOOSE ENDS OF ISSUES SUCH AS FARAKKA. MOYNIHAN UNQUOTE RUSH

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